

German road users braced for new taxes

By Quentin Peel in Bonn

GERMANY'S car-centred, road-ruled society is working itself up into a state of acute alarm over the prospect of some swingeing new taxes and tolls on road users - regardless of denials by the government.

Shares of all the large motor manufacturers lost ground on the Frankfurt stock exchange yesterday, as the rumour mill was kept working by newspaper and television reports on the impending oil products tax, increase, and a national road toll.

Forsche lost DM14.50 (35); Daimler-Benz DM11.50, BMW DM9.50 and VW DM8.50.

The speculation has been brought to a head by the imminent decision in the German cabinet on reform of the all-thing railway system - the Bundesbahn in the west and the Reichsbahn in the east - and the need to find an important new source of finance to pay off its past debts and current losses.

In spite of the insistence by Chancellor Helmut Kohl and Mr Theo Waigel, his finance minister, that no new tax increases are planned before the next election, press speculation is rife that a big increase in the oil products tax is inevitable.

What is rather more likely is the re-introduction of a road toll, and an autobahn permit for road users, following the rejection by the European Court of Justice this year of a first draft to penalise foreign road hauliers.

Mr Dieter Vogel, the government spokesman, insisted yesterday that no proposals for tax reform were on the agenda for the cabinet meeting tomorrow, when the rail reform plans are due to be decided. He

also underlined that Mr Günther Krause, the minister of transport, was personally opposed to any general oil tax. That was supposed to scotch speculation about an oil tax increase which would put 10 pence on the price of a litre of petrol, according to the mass circulation Bild am Sonntag newspaper.

That would be the equivalent of a 14 per cent rise in the price of the lowest cost grade of petrol.

Mr Krause is on the record, however, as being in favour of re-introducing some form of general road toll.

He said in a weekend interview with Der Spiegel, the news magazine, that an autobahn toll for domestic and foreign lorries would probably be introduced by 1993, and for cars by around 1995-96.

He said that the annual toll for lorries would cost up to a maximum DM9,000 as was already intended in the original 1990 proposal outlawed by the EC. Other reports suggest a car tax of between DM200 and DM400.

The question is whether such proposals will come near to meeting the extraordinary needs of the German Bundesbahn, which is this year expected to show a loss of around DM1.1bn, much of it in interest payments on accumulated debts of around DM45bn. The backlog amounts to twice the Bundesbahn's DM20bn annual turnover.

The reform plan before the cabinet would turn the railways into an independent shareholder company, Deutsche Eisenbahn AG, although not with private shareholders to begin with.

As a result, its accounts would be more transparent, and its staff would cease to be classified as civil servants.

Mr Friedel Neuber, chairman of the WestLB bank, the biggest public sector bank in Germany, said yesterday that a "clear statement" from the Bundesbank after its council meeting on Thursday would help to calm markets. He said he was doubtful that the central bank chiefs would decide to tighten monetary policy, although some council members are lobbying strongly for moves to deter demand for

credit. The DAX stock market index lost almost 18 points to close at 1,736.50 and the Rex bond index ended the day at 96.51 (98.75).

Immediate prospects suggest inflation will fall this month to below 4 per cent, compared with 4.3 per cent in May and the 10-year high of 4.8 per cent recorded in March. The expected drop will result mainly from the effect of higher duties on oil and tobacco, imposed 12 months ago, falling out of the year-on-year price calculations.

However, "home-made" inflationary pressures are still strong, according to the HWWA economics institute in Hamburg. The main source is high wage settlements in this year's round, which is currently showing through in a 6 per cent rise in the costs of services and repairs.

The housing shortage is also forcing up rents at an annual rate of more than 5 per cent, and car running costs are up more than 7 per cent.

Main contributors to the downward trend in wholesale price rises were fresh vegetables, 4.2 per cent cheaper than a month earlier, and heavy heating oil (off 3.6 per cent).

However, the picture was marred by an 18 per cent rise in the cost of fresh fish and increases in men's clothing and frozen meat.

Paris cinemas fear new wave of competition

The expansion of French cinema chains is posing a threat to the independents, writes Alice Rawsthorn

FOR THE past few weeks the film buffs of Paris have been queuing patiently - and not so patiently - on the Place d'Italie to visit the Gaumont Grand Ecran, the city's newest cinema and the biggest single screen in the French capital.

There will be yet another brand new cinema to try out from tomorrow when Le Dôme Imax opens its doors at La Défense in western Paris. At a time when the Hollywood studios are struggling and the British film industry is at its knees, the launch of not one but two new screens in Paris could be seen as a symbol of French cinema's success.

But the expansion of the big French cinema chains, notably Gaumont, the Grand Ecran's owner, poses a growing threat to the dozens of tiny independent cinemas that have turned Paris into one of the world's liveliest film centres.

The Grand Ecran's opening could come to be seen not as a success symbol, but as a milestone in French cinema's decline.

Anyone glancing at this week's Paris film listings could be forgiven for thinking that decline is a long way off. Paris is still a dream city for any cineaste, with a wider choice of films than anywhere else in the world. The city is plastered

European Diary



France

with posters for the latest Hollywood blockbusters showing at the big commercial chains. Night after night the dozens of tiny independent cinemas in the Latin Quarter play crackly prints of esoteric art films to packed houses. This summer's retrospective of the films of John Cassavetes, the US director, is the most successful revival ever in Paris.

The reason why there are so many films in Paris is simple - Paris has lots of cinemas, 450 to be precise. The proliferation of independents means that even the most obscure new movies usually open on at least three screens. The purist film fiends rarely stray from the Latin Quarter art houses. The less ascetic are tempted away to

more exotic screens such as La Pagode, a Japanese pagoda imported to France in the 1890s and converted into a cinema in the 1930s, or Le Grand Rex on Boulevard Poissonnière, where images of clouds are projected on to the star-spangled ceiling.

For years the art houses have co-existed comfortably with the big commercial chains, thanks to the support of the sympathetic Socialist government, whose long-serving arts minister, Mr Jack Lang, is an ardent cinema fan. Mr Lang has long believed that it is impossible to have a healthy domestic film industry without an adequate distribution system. One of his first initiatives as arts minister in 1982 was to split up GIE, then France's biggest single cinema chain, into two networks, Gaumont and Pathé.

The two new chains, together with UGC, the other big French network, have since been forced to compete for films.

Given that there is only a limited number of Hollywood movies to go round, this competition has created more room for independent productions on the commercial chains and has alleviated the pressure on the art houses.

But earlier this year Gaumont struck a deal to swap a



Arts minister Jack Lang is concerned about fate of independents

string of its provincial cinemas for the Paris screens owned by Pathé. This means that Gaumont, which now has 19 cinemas with 79 screens in the capital, is once again the dominant chain in the capital, with UGC as its only serious rival.

The cynics in French film circles claim that Gaumont's growth has already had an

effect. Gaumont and UGC, they say, are allocating too many screens to Hollywood blockbusters. The most widely distributed films in Paris this week, Basic Instinct and Beethoven, are both from the US and both showing on almost 20 screens. There are fears that this situation will worsen next year when Gaumont starts to act as the exclusive French distributor for Disney, the US film studio.

Another concern is that distribution is becoming increasingly difficult for independent film makers. Mr Serge Toubiana, editor of Cahiers du Cinéma, the film magazine, recently wrote an article in Libération newspaper describing the problems faced by Mr Danièle Dubroux, a young French director, in finding a cinema to show Borderline, his latest film.

Mr Lang's Arts Ministry has voiced its concern, as has the French film producers' association.

Mr Michael Sapin, the finance minister, last week took action by referring the Gaumont/Pathé deal to the Conseil de la Concurrence, the competition authority, for retrospective investigation.

He also warned that he would be keeping a sharp eye on similar transactions in the future.

Meanwhile, the big French cinema chains are intent on becoming even bigger. UGC is now building the capital's first multi-screen cinema complex.

Gaumont is renovating four of its Paris cinemas as part of a £20m programme. For better or worse, the era of the Grand Ecran has begun in Paris cinema.

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Spanish inflation rate falls to 6.2%

By Peter Bruce in Madrid

SPAIN'S consumer price index was static in June, providing a welcome respite for the country's hard-pressed economic managers, who are busy preparing a series of tough measures to clamp down on public spending.

Last month's pause in inflation draws annualised inflation down from 6.5 per cent to 6.2 per cent. The annual figure has risen as high as 6.9 per cent this year, after ending 1991 at 5.5 per cent. Nevertheless, the Finance Ministry said yesterday it was still concerned that the underlying rate of inflation, a measure which excludes energy and processed foods prices, had fallen only slightly, to an annualised 6.7 per cent in June.

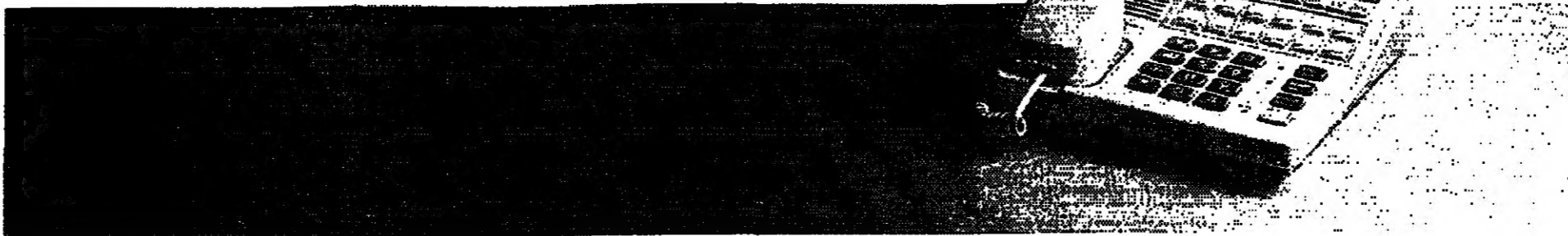
The June figures, nevertheless, lend weight to the government's arguments that it is, indeed, capable of slowing inflation despite the fast

growth in prices in the early part of the year. These were due partly to the imposition of new value added tax changes in January.

Nevertheless the government is likely to adopt measures before the end of this month to combat a 55 per cent increase in the public-sector deficit in the first five months of the year and a rise of more than 65 per cent in the current-account deficit.

The economy grew only 2.3 per cent in the first quarter, its poorest performance since 1985.

Mr Carlos Solchaga, the finance minister, seems likely to bring forward a VAT increase from 13 per cent to 15 per cent planned for next year and to raise taxes withheld on income, as well as to make sweeping cuts in public spending budgets not already committed for 1992. He is then likely to produce a tight 1993 budget in the autumn.



NEWS: INTERNATIONAL

State government has flouted court orders, says interior minister

New Delhi defied on Hindu temple

THE government of Uttar Pradesh had flouted court orders by allowing building of a Hindu temple to start near a 16th-century mosque, India's interior minister said yesterday, Reuter reports from New Delhi.

"The government of Uttar Pradesh has violated the court orders by permitting the work to be carried on, on land acquired by the state," Mr Shankarrao Chavan told parliament.

He was referring to a 1989 court order which prohibits any construction near the mosque, in the city of Ayodhya, until the dispute is resolved.

Last week, the supreme court admitted a writ petitioning against the construction. A hearing is set to begin this week.

"The final decision of the supreme court will have to be awaited," Mr Chavan told a noisy Lok Sabha (lower house).

Hindu militants began building the temple last week, reopening a dispute which has led to more than 2,000 deaths during the past three years. The issue has been dormant for the past six months.

Hindus say the mosque is built over the birthplace of the venerated god-king Rama. Moslems say there is no evidence to back the claim.

Uproar broke out in parliament on Friday when left-wing and centrist opposition groups blocked proceedings, demanding dismissal of the Uttar Pradesh government in an attempt to stop the construction work.

The right-wing Hindu revivalist Bharatiya Janata party (BJP), which rules Uttar Pradesh, has said any attempt to destabilise the state government will lead to political turmoil.

The party is the largest opposition group in the Indian parliament.

Mr Chavan said he had appealed to the state government to stop building the temple immediately and wait for the supreme court verdict.

"I have tried to use all persuasive rea-



Militant Hindus perform voluntary construction work on the disputed temple

soning with the chief minister of Uttar Pradesh to have the construction suspended," he declared.

Political analysts say the issue has put Prime Minister Narasimha Rao's minority

Congress government in a quandary. They say any serious action to halt the construction work could spark a political and law-and-order crisis, and a delay could attract charges of collusion with the BJP.

Baghdad rejects UN oil terms

THE Iraqi leadership has decided to turn down the latest United Nations terms for the resumption of limited export sales of its oil, the influential energy newsletter Middle East Economic Survey (MEES) said yesterday, Reuter reports from Nicosia.

MEES said the decision was reached after several meetings in Baghdad between Mr Tariq Aziz, the deputy prime minister, and the Iraqi negotiators headed by Mr Abdul Amir al-Anbari. Iraq's main objection was to the UN's insistence that oil exports should be channelled through Turkey to the Mediterranean terminal of Ceyhan, rather than through Iraq's Gulf port of Mina al-Bakr.

A compromise deal which would have required Iraq to start exports via Turkey, with the possibility of being permitted to export up to 10 per cent of the allowable volume from Mina al-Bakr, was also rejected by Baghdad, MEES said.

Indonesia appeal

Amnesty International appealed to Indonesia yesterday to prohibit summary executions and torture, which the human rights organisation says are widely used to suppress political dissent, Reuter reports from Jakarta.

The group's report coincides with a meeting of Indonesia's foreign aid donors in Paris this week.

Rwanda fighting

Fighting raged in the tiny central African state of Rwanda as the government and rebels prepared yesterday to sign a ceasefire in the 21-month conflict, Reuter reports from Kigali.

Red Cross plea

The British Red Cross launched a multi-million pound appeal for Somalia yesterday, saying 2m people could starve because of war and famine, Reuter reports from London.

Jordan dismisses Rabin regional talks offer

By Lami Andoni in Amman and agencies

JORDAN yesterday dismissed the offer by Mr Yitzhak Rabin, the Israeli prime minister, for talks in Jerusalem or neighbouring Arab capitals, saying there must first be "constructive success" in the formal Arab-Israeli peace negotiations. The country's chief delegate to the Middle East peace talks said the "real issue" was Israel's acceptance of United Nations resolutions calling on Israel to withdraw from the occupied territories.

Mr Abdel Salam Majali said: "I cannot see the point of inviting us to go to Jerusalem before we really see constructive success in the negotiations in the proper place in which we have all agreed to go to."

He added: "Israeli leaders have said this many times but one can see it is just talk." Jordanian officials said King Hussein would maintain his position of rejecting direct talks with Israel without a settlement on its withdrawal from the West Bank and Gaza strip. Palestinian officials also said

they were disappointed by Mr Rabin's offer, but said they hoped that the offer signalled that Israel might prove more flexible during the next round of Middle East peace talks.

No immediate reaction was forthcoming from either Lebanon or Syria, but President Hafez al-Assad, the Syrian president, has also professed the utmost resistance to visiting Israel.

The only Arab leader to have made the trip was President Anwar Sadat, the assassinated Egyptian leader, in a gesture which helped forge peace between Cairo and Israel, but which ostracised Egypt from the rest of the Arab world.

Senior Palestinian officials in Amman claimed that despite Mr Rabin's offer to seek a breakthrough in the peace process, the Israeli premier was avoiding what they called the "pre-requisites for peace".

"Our problem with Rabin is that he wants to sell himself as a peacemaker, but he has to prove himself with deeds, not words," said one official.

He said that Palestinian delegation at the peace talks

wished to see Israel first accept in full the Geneva convention, which bans Israel, as an occupying power, from changing the identity of the West Bank and the Gaza strip.

The official said that if Mr Rabin wishes to be serious about peace he must show "genuine readiness" to halt all settlements on the West Bank.

Palestinian officials said that Mr Rabin's offer to talk in neighbouring Arab capitals echoed calls from the previous Likud government for a normalisation of relations between Israel and its Arab neighbours.

However, Palestinian groups and the Arab governments participating in the peace talks insist that Israel must first withdraw from the territories occupied in 1978 before there can be any normalisation of relations.

Arab delegations to the peace talks, Jordan, Syria, Lebanon and the Palestinians, have consistently rejected Israel's call for the talks to be conducted in the region - a move they would interpret as an Israeli breakthrough in normalising relations.

Baker praises quest for progress

MR James Baker, the US secretary of state, yesterday praised the Israeli prime minister's offer to go to Arab capitals in search of a peace breakthrough, Reuter reports from Washington.

"I think that any time Arab nations and Israel can sit down face to face and talk peace it is a very good thing," Mr Baker

said. "Whether it is done in the context of the peace process which we have developed or whether it is done outside it, I think it would be a very, very good thing."

Asked if he still intended to proceed with the peace process that the US initiated with a Middle East conference last October, Mr Baker said: "The

point I want to make... is that we should not exclude anything that should lead to peace."

Ms Margaret Tutwiler, the State Department spokeswoman, said the administration was considering sending a senior official to Israel to prepare for a possible visit to Washington by Mr Rabin.

Malawi campaigner sent for trial

MALAWI magistrates' court yesterday charged pro-democracy campaigner Chakufwa Chibana with three counts related to sedition, his lawyer, Mr Bazuka Mhango, said, Reuter reports from Lusaka. The case had been referred to the high court for trial.

He has been charged with offences relating to sedition, the first one of importing sedi-

tious publications, second, being found in possession of seditious publications and third, preparing an act with seditious intent," Mr Mhango said. The penalty was a fine equal to \$770 (\$403) or a five-year prison sentence.

Mr Chibana, 52, chairman of the Lusaka-based Interim Committee for a Democratic Alliance, was arrested on April 6

when he returned to Malawi from meetings with pro-democracy exiles in Zambia and South Africa.

He was freed after a high court judge granted him bail, the first in Malawi's history of political detentions. Western governments have been pressing President Kamuzu Banda to allow opposition parties in Malawi.

BROKERS DEFIANT AS EXCHANGES TRY TO REOPEN

BROKERS throughout India refused to resume trading yesterday after the four main stock exchanges reopened for trading after more than a month, Shriraz Sidhva writes from New Delhi, Delhi.

Bombay, Madras and Calcutta brokers demanded immediate action on disputed shares after exposure of the Rs3.5bn (\$63.6m) Bombay financial scandal. A cut-off date, to be announced by a special court

this week, would allow brokers to change their transfer deeds and help them convert the tainted shares into good shares. "Members are apprehensive that the shares they deal in today may be

tainted tomorrow," said Mr M.R. Mayya, executive director of the Bombay Stock Exchange. He hopes markets will resume trading tomorrow following an informal meeting of stockbrokers this afternoon.

42 LANCET



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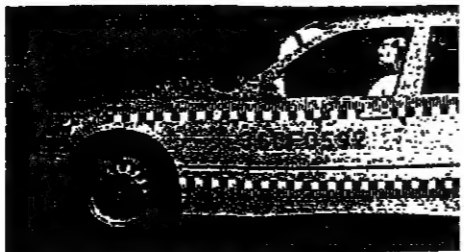
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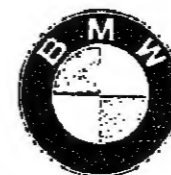
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NEWS: WORLD TRADE

US groups say anti-EC action could hit jobs

By Nancy Dunne in Washington

US IMPORTERS and distributors yesterday told an interagency Bush Administration committee that \$1bn (€221m) in sanctions proposed against EC products would cause widespread US job losses and injury to the US economy.

The prohibitive duties were proposed by Mrs Carla Hills, US trade representative, in retaliation for the failure of the EC to reform "adequately" its subsidies programme for oil-seeds.

Her office last month released a proposed "hit list" of imports worth an estimated \$2bn - which includes wine, cheese, biscuits, gin, liqueurs, and tobacco.

If the dispute is not settled in compensation talks - to be held in the General Agreement on Tariffs and Trade through to August 18 - the Administration has threatened to impose sanctions on \$1bn-worth of products on the list.

However, officials of companies which have long-established ties with Europe yesterday made clear that any retaliation against the EC would be particularly devastating on the wine, beer and spirits sectors, which are struggling to recover from two big rises in federal excises taxes in the past seven years as well as new state and local taxes.

Typical of the testimony before the "Section 301 committee" were the comments by Mr Fred Meister, president of the Distilled Spirits Council of the US.

New tariffs on wines and spirits would lead to a \$1.2bn payroll decline and total loss of 36,000 jobs in the industry, Mr Meister said. Unemployment compensation would cost \$24m; the gross domestic product would fall by \$4.9bn; and tax revenues would decline.

If the EC follows up on its threat to counter-retaliate, the US could lose 25 per cent of its total whisky exports.

Mr Gary Riedel, president of the American Soybean Association, said he regretted any injury to other industries. "If we don't come to terms, then those other industries would have no legitimate degree of certainty that their rights might not be infringed upon in the future," he said.

The controversy leaves the Bush Administration in a tough spot. Failure to act if the dispute is not resolved would receive widespread condemnation by the farm groups.

Mr Bush has already been warned by Senator Robert Dole, the minority leader, and a group of other senators that any settlement must benefit the US soybean sector. They also insisted that the administration must not accept any EC proposal which would put tariffs on EC oilseed imports.

Under a countertrade arrangement, the Turks will supply a power plant under turnkey terms, in exchange for the right to a share of the revenues from the export of Kazakh oil. The agreement could set the pace for similar deals in a region rich in resources but in desperate need of infrastructure.

The deal follows a visit by Mr Suleyman Demirel, the Turkish prime minister, to the region earlier this year, and is the first big break for Turkish groups bidding to do business against competition from western and European oil companies.

Officials confirmed the area under consideration contained recoverable reserves of 600m barrels.

Under the deal, the Turkish group will export the oil using one of the existing or planned pipelines to Europe. Under a production sharing arrangement, BMB will be able to recover its costs of exploration and development of the field. Any "profit oil" which remains once the company's costs have been deducted is to be used to finance the power plant.

Little sign of a sanctions dividend

Philip Gawith reports that exporters in South Africa will have to remain resilient

SOUTH Africa's renewed descent into political crisis is bad news for exporters facing the prospect of customers and markets more interested in the political, rather than the commercial, ramifications of doing business with the country.

However, if the experience of the sanctions era is anything to go by, political opprobrium is something South Africa's exporters do not find too hard. Some is patriotic bluster, to tell the world "you didn't harm us", but there is little expectation of an immediate sanctions dividend. Taking February 1990, when the African National Congress (ANC) was unbanned, as the start of the post-sanctions era, South Africa's merchandise exports grew by 8.4 per cent and 8.3 per cent respectively during 1990 and 1991, whereas growth was 21.25 per cent in three of the previous four years.

Although South African exports may have done well despite the sanctions, the figures do not reveal how much better they might have done under normal circumstances.

The main products affected by sanctions were iron and steel, uranium, coal, fruit and textiles. Most of these found alternative markets, affecting

prices, not volumes. About 65 per cent of South Africa's exports are precious and strategic metals - gold, diamonds, platinum, chrome and vanadium - which were virtually unaffected by the sanctions.

Even exporters of non-strategic goods, such as chemicals and steel, were able to sell all their product during the period. They were not consumer goods requiring conspicuous marketing, and their bulk form meant, if necessary, that their origin could be disguised.

A spokesman for Iscor steel producer, which exports close to 50 per cent of total sales, says that even with US and EC markets closed, it was able to re-route sales to the Pacific Rim and South America.

The figures also reflect the slowdown in world economic growth over the same period. Most South African exports are commodities and particularly vulnerable to such a slowdown being susceptible to both volume and price weakness.

Finally, they disguise an important upward trend in manufacturing exports, especially in areas such as transport machinery and equipment. Reserve Bank figures show that manufactured

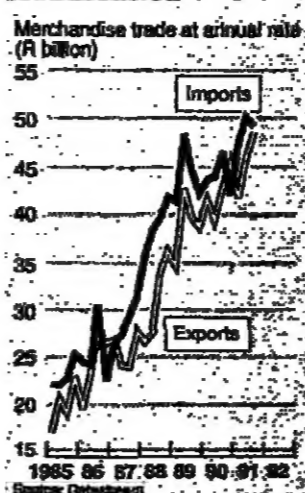
exports, about 20 per cent of total exports, grew by an average 25 per cent per annum during the years 1984 to 1990, the height of the sanctions period. In 1991 they rose by a further 21 per cent.

Initial reasons for this success include the sharp decline of the rand, an average increase of 5 per cent per annum in world trade over the period 1984-90 and slow domestic growth encouraging producers to look for export markets. It also reflects burgeoning trade with the rest of Africa. Johannesburg bustles with Kenyan and Nigerian businessmen and South Africans themselves are much more welcome, as a recent trade fair in Kenya testified.

Mr Bruce Donald, economist at the South African Foreign Trade Organisation (Safro) says that although only 6.7 per cent of South Africa's total exports (R75bn in 1991) are to Africa, 20-30 per cent of finished goods are exported to Africa. The main African export markets are Botswana, Lesotho and Swaziland - part of a customs union with South Africa, Zimbabwe, Zambia and Mozambique.

Continued growth is partly

South Africa



attributable to the success of the General Export Incentive Scheme (GEIS), introduced in April 1990, which offers more generous subsidies as products move up the value scale.

The trend in manufactured exports needs to be kept in perspective. Many of South Africa's manufactured products are uncompetitive because the country lacks economies of scale and has low labour productivity. For exporters, this means finding niche markets, or selling to countries where

South African goods can compete.

Unsurprisingly, fruit products and wine, freed of marketing inhibitions, have probably been the main beneficiaries of the removal of most sanctions. Likewise, the discount of \$3-\$5 per tonne on South African coal has largely disappeared, though the depressed state of the market has overshadowed this benefit.

For commodity exporters the benefits of sanctions going will be felt in lower distribution costs and in some cases through the removal of a political discount on their products.

So far, most agree, there has been little direct financial benefit from the lifting of sanctions. Many companies hope to return to their traditional markets, but realise this process takes time. Relationships have to be developed, or renewed, and new entrants, such as Venezuela into the coal market, make competition fiercer.

The beneficial impact of sanctions being lifted may be evident initially not so much in higher sales as in increased capital investment. Although current political uncertainty mitigates against fresh investment, past experience suggests exports will withstand renewed calls for sanctions.

China buys Rolls-Royce engines in \$300m deal

CHINA yesterday announced a \$300m (£156m) order for Rolls-Royce engines and said it was negotiating to buy eight British Aerospace 146 aircraft, writes Alexander Nicoll.

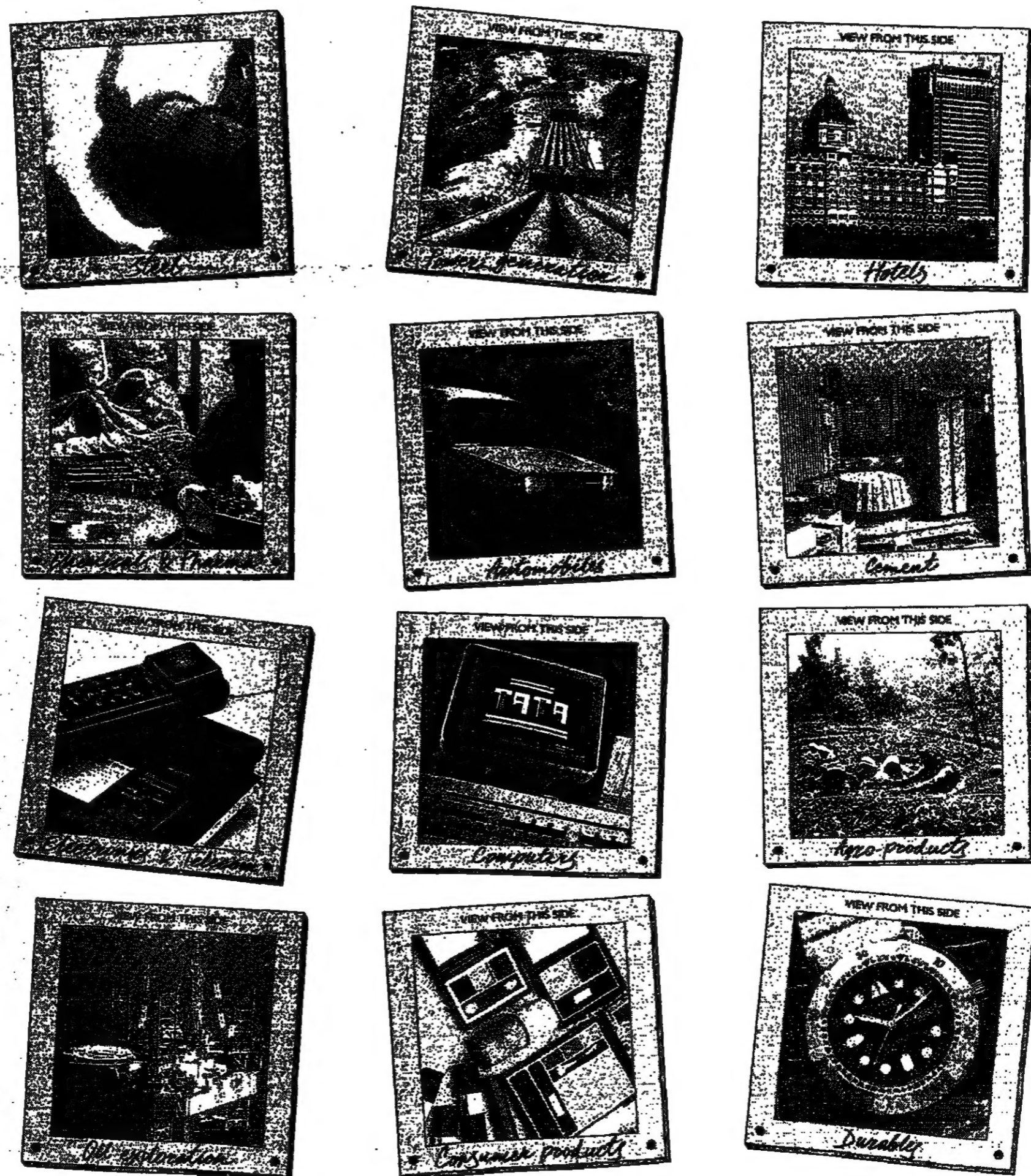
Zhang Yanling, vice minister of the State Council Economic and Trade Office, said a buying mission which he heads has made \$364m of purchases in the UK, and that the BAe order would add a further \$184m.

Mr Richard Needham, minister of trade, is to visit China this month and Mr Michael Heseltine, president of the Board of Trade, will head a large British trade mission to China in October.

A DM600m (£208m) order for three container ships placed with German yards by Cosco, the Chinese shipping line, will go ahead after the Bonn parliament's decision last month to lift restrictions on development aid for trade with China, writes Andrew Fisher in Frankfurt.

Bremer Vulkan, the west German yard, will build one vessel, with the other two to be built under contract by a yard in Wismar, east Germany.

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Gatt row brews on Mercosur scrutiny

A ROW is brewing in the General Agreement on Tariffs and Trade (GATT) on how it should scrutinise Mercosur, the Southern Cone Common Market grouping Argentina, Brazil, Paraguay and Uruguay, writes Frances Williams.

Mercosur says its free trade arrangement should be considered under Gatt's "enabling clause". This allows preferential trade deals between developing countries to be simply notified to Gatt's Committee on Trade and Development, and protects them from challenge by other Gatt members.

But, at today's meeting of the Gatt council, the US will call for a working party on Mercosur under Article 24 of the General Agreement on free trade areas and customs unions. It argues that the size and potential importance of Mercosur, with a population of

300m and an annual GNP of \$500bn (£260bn), merits a detailed examination by trading partners to check its consistency with Gatt rules.

The EC yesterday proposed a compromise under which Mercosur would be examined by a working party set up by the committee.

Mr Nunes Amorim, Brazil's ambassador to Gatt, said yesterday that Mercosur members were prepared to provide full information on Mercosur to Gatt members, and to enter into consultations with any country that felt its Gatt rights were being impaired.

Mr Rubens Barbosa, a senior trade official from Brasilia, said in an interview that trade between Mercosur members had jumped by over a third between 1990 and 1991, while Brazil's exports to Mercosur partners had risen 77 per cent.

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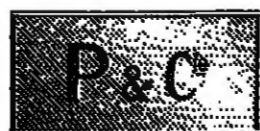
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NEWS: UK

Urban policies have failed, says report

By Alan Pike
and Allison Smith

THE BRITISH government's policies aimed at reversing inner city decline have largely failed, a critical report from the Independent Policy Studies Institute concluded today.

The report's conclusion - that after 15 years of urban aid programmes the gap between deprived areas and the rest of the country is as wide or worse - comes at an embarrassing time for the government. On Thursday, ministers will announce successful bidders in City Challenge, the latest in a long series of initiatives aimed at reviving inner cities.

The PSI report acknowledges that City Challenge - under which local authorities bid competitively for government funds for specific urban projects - and the government's proposal for an Urban Regeneration Agency, have not yet had time to prove themselves. It comments, however, that "given the record so far, it is difficult to have much confidence in more of the same".

The report uses official statistics to examine deprived areas in relation to factors including employment, education, training, poverty, health and housing. "Under most headings, the gap between conditions in deprived areas and other kinds of place remains as wide as it was a decade and a half ago. In some respects the gap is wider," it says.

Ministers hope that City Challenge, by making local authorities think competitively about priorities and work in partnership with the private sector, will be more successful than previous initiatives.

They are keen that the announcement of the City Challenge winners should not mean that projects which fail to gain funding through the scheme are inevitably shelved.

Ministers point out that some projects are seeking other forms of government money, and failure in City Challenge need not mean the end of the road. Particular importance is attached to keeping private sector interest in the proposals alive.

Fair trade chief may act on high cost of CDs

By David Owen
and Michael Skapinker

SIR BRYAN Carsberg, newly-appointed director general of fair trading, has raised the possibility of regulatory action over the high price of compact discs just three months after his predecessor rejected the idea.

In a letter last week to Mr Nigel Griffiths, a Labour opposition consumer affairs spokesman, Sir Bryan said he wanted to "review the evidence personally" before deciding on whether a case "exists for additional work and perhaps formal regulatory action".

Mr Griffiths wrote to Sir Bryan last month requesting a fresh inquiry, saying that the investigation by Sir Gordon Borrie, previous director general, had left consumers feeling dissatisfied. Sir Gordon said at the beginning of April that an inquiry by the Office of Fair Trading had found collusion between record companies and retailers.

Sir Gordon said CDs were more expensive than cassette tapes and records and this could not be explained by differences in production costs. CD prices were high because consumers were willing to pay more for them.

In his letter to Mr Griffiths, Sir Bryan, who took up his post last month, says: "There are some indications that the price of compact discs is higher than it should be but the evidence so far is not clear cut." The OFT said Sir Bryan would examine the evidence already collected before deciding whether further investigations should be carried out.

The OFT's earlier decision to take no action on CD prices came as a sharp disappointment to the Consumers' Association, which has campaigned on the issue for several years. The Press Council in 1990 rejected a complaint from the British Photographic Industry Association over an article in Which? magazine, published by the Consumers' Association, on CD pricing. It accused record companies of keeping prices artificially high.



London Zoo, which is faced with closure, could be the final destination for the British pavilion (above) at Seville's Expo 92, under the latest scheme for bringing back the highly admired building to the UK after the world fair ends in the autumn.

Professor Paul Cook, president of the British Science and Technology Trust, said yesterday he was working with British companies to raise the £20m needed to reconstruct the steel and glass pavilion in Regent's Park as a showcase for British companies' developments in environmental technology.

The pavilion, designed by Nicholas Grimshaw & Partners, features a wall of water designed by the sculptor William Tye. Lord Palumbo, chairman of the Arts Council, has already proposed that it should be rebuilt beside the Design Museum near Tower Bridge as a gallery of British design.

Britain in brief



Blue Arrow appeals under way

Four City advisers convicted of fraud over the Blue Arrow scandal were denied a fair trial because of the length and complexity of the legal proceedings and the judge's late decision to cut down the case against them, the Court of Appeal was told yesterday.

Mr Jonathan Cohen, a former County NatWest chief executive, Mr David Reed, a former head of corporate finance at County and Mr Nicholas Wells, a former County director, were all given 18 month suspended sentences at the end of the trial which lasted a year and four days. Mr Martin Gibbs, former head of corporate finance at USS Phillips & Drew, received a one year suspended sentence. All four men were convicted of conspiring to mislead the markets over the result of the 1987 Blue Arrow rights issue by secretly buying shares themselves to raise the take-up level announced to other investors. All except Mr Wells were in court to hear Mr Anthony Hooper QC open the appeals against their convictions.

Van sales up

UK commercial vehicle sales in June reversed 32 consecutive months of decline. But the slight sales increase was concentrated in the vans sector and manufacturers continued to show little optimism of an early truck market recovery.

BCCI creditors seek appeal

A group of individual creditors of the collapsed Bank of Credit and Commerce International appealed against last month's High Court ruling that sanctioned the \$1.7bn compensation package negotiated

between Touche Ross, the liquidators, and the bank's Abu Dhabi majority shareholders. This follows the decision of the UK creditors' committee not to appeal when it was told that it might be liable for costs in the action rather than being able to recover appeal costs from BCCI assets.

Scheme for new N-plant

Nuclear Electric, the state-owned nuclear power utility, is likely to seek planning permission for Sizewell C power station in Suffolk before the government decides whether to give the go-ahead for further plants. A formal application for the £3bn twin reactor plant could be submitted to the local authority later this year - two years before the outcome of a ministerial review of nuclear power economics is known.

Bank wind-up bid delayed

An application by the Bank of England to wind up Rafidain Bank, the Iraqi state-owned bank, was delayed for another year in the High Court. Sir Donald Nicholls, senior judge of the Chancery division, ruled that in view of the continued freeze on Iraqi assets the application should be adjourned until 1993.

Rain drain plan

Scotland may export water to England to relieve the water shortage, said Mr Allan Stewart, Scottish industry minister. The Scottish Office is examining a £12m scheme drawn up by the construction industry for transporting water from the southern uplands of Scotland to England.

Orangemen on the march

More than 50,000 Orangemen took part in the traditional July 12 demonstrations throughout Northern Ireland. Unionist leaders sought to reassure meetings that traditional views were being safeguarded during the political talks taking place with the Irish government.

Major frustrated by lack of Gatt deal

By Ralph Atkins

A DEAL on the Uruguay round of trade liberalisation talks would make "the single biggest contribution" possible towards world economic recovery, Mr John Major, the prime minister, said yesterday.

Amid calls from many Tory backbench MPs for lower interest rates or a sterling devaluation to revitalise the UK economy, Mr Major stressed the importance he attaches to free trade when he reported to the House of Commons on last week's Munich summit of leading industrial nations.

He betrayed his frustration

that a deal had not been possible last week and - in a jibe at countries he believes are blocking a settlement - said: "with the right political instruction, the negotiators could very swiftly reach a settlement."

The stumbling block to a Gatt deal remains a dispute between the EC and the US over farm subsidies.

France, in particular, wants the US to respond positively to recent reforms in the EC common agricultural policy.

Mr Major faced ridicule from Mr Neil Kinnock, the opposition Labour party leader, for what he saw as the "ineffectual results" of the summit.

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TECHNOLOGY

Research comes back to the nest

Guy de Jonquieres finds out why Nestlé is taking a closer interest in the commercial side of R&D



IT IS lunchtime at Nestlé's gleaming laboratory high on a hillside above Lausanne. Gathered round a canteen table, the company's top researchers are rejoicing at their liberation from the past with the sort of bright-eyed wonderment with which east Europeans greeted the collapse of the Berlin Wall.

In the past two years a minor revolution has swept through the laboratory, shaking its 600 researchers out of a cosy ivory tower existence and propelling them much closer to the cutting edge of the Swiss food manufacturer's global competitive strategies.

Nestlé invests Sfrs120m (\$48m) a year in research - and Sfrs500m in development - making it the food industry's biggest spender on science and technology. But until recently much of the lab's work was only tenuously connected with the company's business.

"In the past, people here didn't get their hands dirty dealing with food," says Magnus Dagerak, head of the lab's food technology department. "Everybody was busy publishing papers. They were trying to compete with universities."

Indeed, Nestlé researchers enjoyed an intellectual freedom which many academics would envy. Says Herb Hottinger, head of bio-science research: "When scientists joined the lab, they were told: 'Just work in this or that area. If you work hard enough, we're sure you'll find something.'"

But the price the lab paid was to become a sterile backwater, cut off from Nestlé's global network of development centres and largely ignored by its operating divisions. As a consequence, much research never found commercial applications.

By 1990 Helmut Maucher, Nestlé's chairman, had had enough. Deciding a wholesale shake-up was needed, he recruited Werner Bauer, a German professor of bio-engineering, to bring the lab firmly back into the corporate fold.

This has been achieved partly by establishing formal links with the strategic business units (SBUs) into which Nestlé's commercial activities have recently been grouped as part of a wider corporate reorganisation. Each SBU now includes a research co-ordinator, responsible for two-way communications with the labs, which are encouraged to view the SBUs as clients.

Bauer, who previously worked at one of Germany's Fraunhofer institutes of applied technology, has reorganised the labs to focus their priorities more clearly and enable them to respond faster.

The company's senior researchers, far from being resentful, seem exhilarated by the fresh challenges they face. As Brian Suter, British-born chief of Nestlé's research and development puts it, they are full of "boisterous, exuberant, young ideas".

He concedes, however, that the new system still needs time to bed down. In particular, bridges are still being built with the rest of the company.



WERNER BAUER is light years away from most people's idea of an academic scientist. A fast-talking 40-year-old who likes to start each day with a swim in Lake Lemano, he bristles with get-up-and-go energy.

He is also a firm believer in decisive management and accountability. "From the beginning, I wanted strong managers in the lab who could influence decisions and make things happen," he says. "I don't believe in co-ordination. I believe in power. I'm a Bavarian."

Yet, he has also exhibited a keen sensitivity and concern for his human touch. Before taking up his job, he took extensive soundings

among his researchers, interviewing 200 of them in two months. To find out whether they were "analysts", "lateral thinkers" or "implementers", he asked them questions such as whether they owned a motorbike and how they serviced it. "You can tell a lot about people's skills from their answers," he says.

Then he moved into action. About 30 older staff were persuaded to take early retirement, and the lab's sprawling operations were grouped into seven departments.

In choosing department heads, Bauer looked as much for administrative and personnel management skills as for scientific ability. Each is expected to act as a "pusher", setting goals for members of his team and monitoring their performance closely.

A hierarchy of priorities has been set for research, by dividing it into four categories: basic science and technology; development of techno-

logical tools; projects sponsored by the SBUs; and short-term tasks closely related to the market.

Bauer and Suter lay much stress on good communications and human relationships. To build team spirit, Bauer has installed relaxation areas in the labs, where researchers can meet and talk, and organise cultural events such as musical evenings and art displays.

Though some old-timers have found it hard to adjust, Bauer insists most of his staff have responded positively. "Almost 100 per cent of them are now really working for Nestlé," he says.

Bauer's next task is to integrate research with Nestlé's network of international development centres. The ultimate goal is to speed innovation by synchronising R&D more closely.

But changing such a complex set of relationships in a company Nestlé's also will be a gradual process, he says: "We have to build up trust. That will take some years."



draw the line: "In research, there is always a will to perfect. But a company can't afford that," he says. "Stopping at the point where learning curves become incremental is

what I see as my major job."

All the more so because the huge marketing costs involved in launching brands are prompting Nestlé to gear research increasingly to strengthening established products, rather than inventing new ones.

The company points to Nescafé, its most profitable product, as a classic example of the approach. The brand has dominated the soluble coffee market for half a century, thanks to continuous updating of process technology and the regular introduction of new variants, the latest of which is instant cappuccino.

Yet the Nescafé formula also sprang from innovations in Nestlé's laboratories which broke completely new ground. By focusing research more tightly in support of existing products, will the company not risk missing out on similar world-beating breakthroughs in the future?

Suter replies that the world has changed radically since the 1930s, when Nescafé was invented. Nowadays, innovations are much more expensive to develop and are much more quickly matched by competitors. Still, he says, "I wouldn't want to exclude that one day we may come up with another blockbuster like Nescafé - it may just be possible."

Technically Speaking

The limitations of computer prose

By Jane Dörner

Word-processing manufacturers are getting over-ambitious. Not content with offering inventive features to make the mechanics of writing easier, they are now providing language lessons on line.

Already half a dozen top word-processors have grammar "checkers" built into them, and this year a whole sweep of packages for polishing prose has emerged. The latest programs aim to help people in business to produce good, structured, accurate writing.

The theory is that there are identifiable steps to writing good prose which software can make easier.

The first task is to choose a subject. The computer runs "brainstorming software" to help spawn the idea, followed by a "writer's block evader" to get over the fear of a blank screen.

The next stage is to outline a structure. By scanning business writing advice programs, good letter writing plans, report writing skeletons or random plot generators the user is offered a selection of templates.

Once the basic outline is ready the user begins to write. If stuck for a word, a spicy quote or impressive fact, the requisite dictionary can insert it into the text at the press of a button.

Also available for quick reference are thesauri, multilingual dictionaries, usage advice, abbreviations and automatic hyphenation. All this will occupy a sizeable chunk of the hard disk and active memory.

Finally, after the piece is written, correction programs sift through the text, pouncing on infelicities of style, punctuation, grammar and usage.

There's almost nothing the software linguists haven't thought of to take the pain out of writing. There are some 30-40 types of software beyond the word-processor itself - all apparently selling well. It seems that Britons and Americans are sufficiently insecure about their ability to express themselves that they support an entire industry of computerised

language lessons. This ought to be good news for managers who are anxious about standards of English teaching in schools. Unfortunately, however, providing a suite of writing tools for staff is only a palliative, not a substitute.

Programs that act as reference books on line are handy, but the user has to know whether a problem exists in the first place. That's fine for checking if Middlesbrough has one or two Os in it, but whether to put a question mark before or after a closing quotation mark is a trickier matter.

The trouble is that the limitations on computer memory make it impossible for a program to provide sufficient information about the intricacies of an entire language. This is not surprising as language is too rich to be stuffed within the confines of a personal computer program. Most advice is glib.

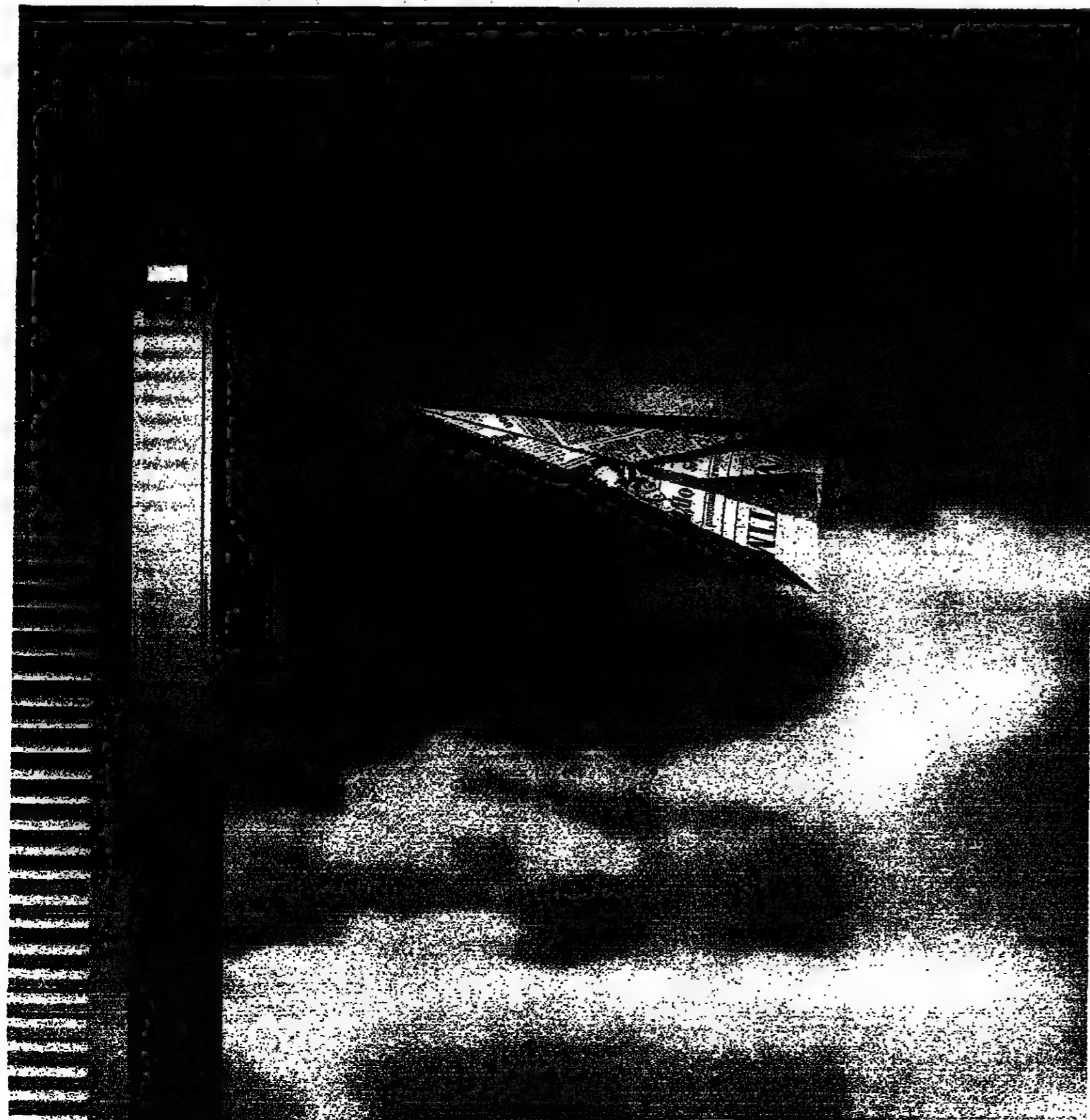
Programs that check for errors of grammar or idiom may be a boon to those who recognise the error and can quietly put it right before the client sees it. But they are no good for users who are unsure. Software analysis can easily come up with an incorrect diagnosis or offer inappropriate comment.

Even if it does offer some useful learning points for the insecure writer (when to use "its" or "it's") such programs are only worth their price to those who can sort the wheat from the chaff. And those people trust their instincts, not a number-crunching, pattern-matching system.

One has to admire the ambition of the software producers who have set themselves the impossible task of taming language to fit computer capabilities. The danger is that some users may depend too heavily on such programs to mask their own shortcomings.

Style-checkers encourage deadened prose based on limited criteria of excellence. Good, structured and accurate writing comes from practice, not from software.

Jane Dörner's book, *Writing on Disk*, is published by John Taylor Book Ventures. Price £15.95.



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WORLD AUTOMOTIVE COMPONENTS

SECTION III

Tuesday July 14 1992

As car and truck makers seek ways to shore up their sagging profitability, the components industry is experiencing painful shock waves. Kevin Done assesses prospects for manufacturers facing up to an era of restructuring

Going gets even tougher

THE competitive screw is being tightened remorselessly on the world's automotive components suppliers, as car and truck makers seek urgently for ways to shore up their sagging profitability.

With bought-in components usually accounting for at least 50 per cent of the costs of a car — Ford purchases alone totalled nearly \$55bn in 1990 — it is little coincidence that the vehicle assemblers look first to squeeze their suppliers, when the going gets tough.

The resulting shock waves that pass through the automotive components industry are being felt most painfully by the army of suppliers to General Motors, the world's largest vehicle maker, who are still trying to come to terms with the latest convulsions in Detroit, as GM seeks to staunch its record losses. GM is looking to global components sourcing as one of its main routes to short-term financial recovery.

Ominously for suppliers Mr Robert Stempel, GM's hard-pressed chairman, warned recently that the group would "use the global purchasing power of GM to reduce material costs and accelerate the return of our North American operations to profitability. We need to leverage the worldwide volume of GM to buy our material and components at best prices."

GM, the wounded elephant of

the world auto industry, which last year suffered a massive \$4.5bn deficit, the largest annual loss ever recorded by a US company, is finally being forced to take radical actions to put its house in order.

Mr Stempel says GM is "aggressively pursuing" five key business strategies to try to bring its sprawling North American auto operations back into profit. These include:

- instituting global sourcing,
- accelerating the implementation of lean production,
- significantly reducing the number of GM vehicle platforms (the basic underbodies that spawn a range of cars) with greater use of common components between vehicle lines,

- cutting back North American manufacturing capacity, and
- putting into effect an aggressive new product programme.

Some of these strategies will take time to show through in the profit and loss account, but the reduction of the purchasing bill can bear immediate fruit.

In recent weeks GM has established a worldwide purchasing organisation, headed by one of the key executives from its successful European operations, Mr Ignacio Lopez de Arriortua. Mr Lopez, GM vice-president in charge of worldwide purchasing with effect from May 1, has also become a member of both of

GM's North American and European strategy boards.

He has already stunned the US component industry by indicating, at a meeting last month with top executives of 600 suppliers and 300 GM purchasing managers, that existing GM contracts are open to new bids. It is thought that GM could be seeking more than the 7 per cent price cuts over three years it had already begun to demand last year. The carrot Mr Lopez is dangling is the opportunity to sell products to GM worldwide under long-term contracts.

According to Mr Stempel long-term contracts, some for the life of a new model, would provide suppliers with the necessary volume to support their capital investments to reduce costs and improve quality. "We're going to concentrate on suppliers who meet our cost and quality standards."

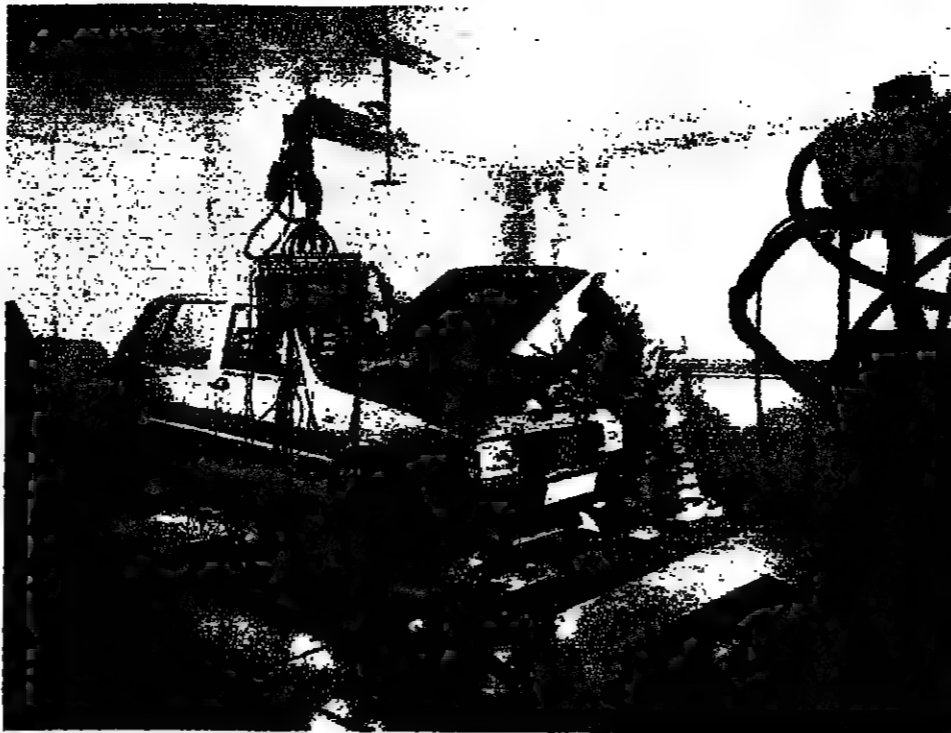
The pressures on GM are being felt by all vehicle makers, and the crucial relationship between the vehicle producers and their suppliers is being fundamentally transformed.

The leading vehicle makers are creating global operations, forcing the component producers to match this international expansion if they wish to maintain their central supplier roles. At the same time they are off-setting research and development spending by globally sourcing their component requirements, increasingly in the form of built-up systems.

The vehicle makers are using larger purchasing volumes — sometimes in alliances as in the case of Renault of France and Volvo of Sweden — in order to push down supply costs.

Renault and Volvo announced late last month far-reaching steps to achieve a genuine joint purchasing strategy "to control costs by reducing purchasing prices" with the aim of bringing the proportion of the two groups' total purchases from joint outside suppliers to 80 per cent from only 15 per cent today.

The vehicle makers are also drastically cutting the number of their suppliers to simplify their purchasing relationships



Shape of things to come in all kinds of weather: a wind tunnel determines the lines of least resistance in tomorrow's car while an engineer tries a cold start in sub-zero temperatures (top)

and to delegate more responsibilities to their main so-called first tier suppliers.

Ford has reduced its worldwide supplier base by more than half from 1980 levels and intends to reduce it by an additional third by 1995. Ford of Europe has cut the number of its suppliers by 15 per cent to 900 since 1988 and plans to shrink the total to 600 by 1995.

In response, the component

manufacturers are being forced into an era of drastic restructuring. The market leaders are seeking to establish a presence in all the principal vehicle-producing regions of the world with global representation in terms of production plants.

According to Mr Noël Goutard, chairman and chief executive of Valeo, the leading French auto components maker, "We must migrate with

our European clients eastwards to countries such as Russia and China, and we must accompany the Japanese in their incursion into the west, Europe and the US, as well as build up our presence in Japan."

The component makers are having to concentrate their R&D resources to establish a competitive edge in principal technologies, while also gain-

ing the necessary scale of production volumes to be able to compete on price and to ensure financial survival.

It is a high risk business. "Our fate as components and systems suppliers depends on the capacity to survive of each of our customers. In the merciless war being waged in the automotive industry, there are winners and losers," says Mr Goutard. "When the losers fail, their suppliers frequently stand to suffer heavy losses and the big investments made to serve the customer are reduced to ashes."

Leading component suppliers are taking on a considerably enhanced role as the vehicle makers seek to delegate more component and systems research and development work to the supply industry.

According to Mr Goutard, suppliers are "no longer just producers of parts for vehicle manufacturers. We have become providers of services including the development of products and systems with a high advanced research content. We supply manufacturers with logistics and we finance their inventory." He maintains that the financial pressures on the supplier sector have greatly increased. "Our customers make us finance inventory, developments, heavy R&D resources, tooling."

Longer-term partnerships are emerging linking the vehicle producers with favoured suppliers. Replacing the old adversarial relationships is not always proving easy, however, and a wide credibility gap often yawns between industry rhetoric and practice. "Purchasing policies still vary enormously from one manufacturer to another," says Mr Goutard.

The era of global expansion by the Japanese vehicle makers has set fresh challenges raising the vehicle manufacturers' requirements in terms of price, quality and delivery.

The spread of Japanese vehicle production plants to North America and now to Europe has also heralded an unprecedented level of direct involvement by the vehicle producers in their suppliers' operations and businesses. The vehicle makers take it for

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Editorial production: Roy Terry

granted that they will share directly and immediately in efficiency and productivity gains made by their suppliers. Increasingly they are sending in their own advisory teams to work directly in suppliers' plants.

The expansion of the Japanese presence is also creating a new wave of trade conflicts, most importantly between the US and Japan. This year Washington and Detroit have joined forces to an unprecedented degree — highlighted by the acrimonious visit by President Bush to Tokyo earlier this year accompanied by a business delegation including all the chairmen of the big three US vehicle makers, General Motors, Ford and Chrysler.

The US initiative has brought fresh promises from the Japanese motor industry to buy more US components both for use in Japan and in the Japanese car plants in North America, but the recent concessions will scarcely dent the chronic US automotive trade deficit with Japan.

Within North America, the

Continued on page 2



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WORLD AUTOMOTIVE COMPONENTS 3

Partnership the watchword

THE 15th Automotor international motor components, spares and accessories fair opened at Turin's Lingotto site at the beginning of June with a significant increase in the number of exhibitors.

More than 600 companies were looking to boost their business by being in Turin, compared to 544 last year. Among the exhibitors were 90 from abroad, who considered the commercial benefits of the week-long fair would outweigh the costs.

The growing popularity of the fair is evidence of the increasing pressures on the industry. The problems were underlined by Aldo Malandra, of Associazione Nazionale per l'Industria Automobilistica (ANFIA, the Italian automobile industries association): "These are difficult times for the whole automobile industry. The components industry is having to tackle the simultaneous challenges of a contracting market for new cars and weak demand in the spares after-market."

Original equipment makers in Italy have been unable to avoid being affected by the drop of 10 percentage points in the share held by Turin automobile group Fiat in its home market, from around 55 per cent to about 45 per cent over the past two years. "Companies dependent on Fiat have been badly hit," says Roberto Olivero, sales manager of Automotive Products Lockheed, brake plant at Cairo Montenotte, south of the Piedmont capital.

Fiat suppliers had to reduce their production levels in 1991, and the situation will probably worsen this year. "Much was expected from the Tio, but its sales have disappointed. Fiat's prospects will not get brighter until its ageing model line gets new models."

Moreover, Fiat is reducing the number of companies from which it purchases components. "Partnership is becoming the watchword in the changing relationship between automobile maker and supplier," says Mr Olivero.

Partnership is also the word that ANFIA's Mr Malandra uses to describe the increasingly tighter relationship in which front-rank Italian components firms are being called on to boost in-house capability

Few companies in Italy are escaping the shake-out, observes David Lane

for research. "Automobile makers are delegating as they de-verticalise, and this requires that 'components' makers should be financially strong. The weakest are being sorted out."

As companies address a changing and challenging situation, they have had to increase their use of the state "Cassa Integrazione Guadagni (CIG) fund for laying-off surplus labour. Mr Malandra says that precise figures are not available, but ANFIA estimates that about 10 per cent of the component industry's total workforce of 140,000 is being paid by CIG. Lay-offs at Automotive Products' plant have paralleled those at Fiat.

Few companies are unaffected by the present industry-wide shake-out, and Italy's biggest components group, Fiat subsidiary Magneti Marelli, is undergoing a big re-organisation. Last year this led to a reduction of 4,000 workers from a workforce that totalled about 30,000 at year-end 1990.

Magneti Marelli's 1991 accounts included expenditure of L255bn on restructuring that has involved the closure of eight plants and rationalisation of production aimed at cost containment. The group says there is a 9 per cent improvement in productivity.

It notes that turnover rose 4 per cent in the first four months of this year, and that operating margins have improved, confirming the validity of the re-organisation. (Consolidated accounts recorded a loss of L144bn on L3,287bn turnover in 1991, but the group expects a return to profit in the medium term.)

In focusing on strategic businesses, Magneti Marelli has disposed of those that do not fit into its newly-defined portfolio. Its cable activities have gone to France's Labinal, seals to Britain's TI and horns to Flamm, while batteries production has passed elsewhere in the Fiat Group.

With more stringent environmental laws causing a significant drop in carburettor pro-

duction, Magneti Marelli's efforts are increasing in the engine control sector, which includes injectors and fuel pumps. The group's other key sectors are cooling, heating and air-conditioning systems, instrumentation, lighting and electro-mechanical equipment.

The main outlet for Magneti Marelli's production is its domestic original equipment market, with Fiat Group's Italian operations taking 29 per cent of the total. Automobile makers in France and Germany take 19 and 14 per cent respectively, and Magneti Marelli points to its Q1 status as a Ford supplier, Class A with Peugeot and Renault and Supplier of the Year with General Motors. But Magneti Marelli's horizons extend to the emerging markets in Turkey and Poland.

Foreign markets are important to a large part of the Italian automotive components industry. Mr Malandra says that between 20 and 25 per cent of the industry's total sales of L18,000bn last year were from exports.

Italian makers of brake components rely heavily on sales abroad, with these accounting for more than half of aggregate

turnover. "Brake pads and linings are subject to wear, thus creating demand for spares. The relative lack of product and production sophistication makes market entry easy for small business," says Mr Olivero at Automotive Products.

Fragmentation between many small- and medium-sized companies is a characteristic of production of brake parts in Italy. But, in spite of the trend towards concentration, it continues to be a feature of the Italian automotive components industry as a whole.

"Few of the 1,000 companies in the industry are large. But fragmentation is not necessarily a weakness. The industry has the strength of flexibility. And in terms of technology and innovation it does not lag behind other countries," says Mr Malandra.

Reviewing the bleak situation, in which volumes of original equipment have been eroded by the fall in new car registrations and sales of spares adversely affected by improved component reliability, Mr Malandra sees a shaft of light ahead.

"At present cars in Italy are subject to their first official safety check 10 years after registration. A new highway code should reach the statute book in January 1993 which will make the first check obligatory after four years, with subsequent checks every two years. This ought to stimulate the spares market," he says.

Continued from page 2
mann. Last year, it not only bought control of Boge, a maker of struts and shock absorbers, in a field where it already has a subsidiary, Fichtel and Sachs, it also went on to acquire VDO Adolf Schindling, the instrumentations and controls specialist.

More companies are likely to be snapped up in an industry which saw 50 take-overs between the start of 1988 and mid-1991 when the study called "The Outlook for the German Automotive Supplier Industry" - was produced. In Germany, unlike Britain and France, medium-sized specialist companies are predominant in the parts industry. But they are having to invest more heavily to meet the demands of the motor industry at a time

when financial returns are falling and costs and foreign competition rising.

Thus, adds the SAC study: "Many medium-sized companies in the German components industry appear to be under considerable threat. They have the largest changes to make and face the heaviest demands."

Their customers, the vehicle companies, are increasingly going abroad for their vehicle parts in an attempt to curb costs. So, to compete with foreign parts suppliers, German companies have also started moving outside their home base.

This trend is not being fol-

lowed just to keep costs down, however. Big components companies like Robert Bosch, whose products include anti-skid braking (ABS) and fuel injection systems, have found it necessary to build plants outside Germany to be closer to individual markets. Thus Bosch has built a £100m plant for alternators in Wales to raise its share of the developing UK market, where Japanese investment has led to a new lease of life.

Among the vehicle makers, Mercedes-Benz is also looking towards the UK where it sees the potential to increase purchases of components from local companies offering com-

petitive prices. In addition, a number of German suppliers apart from Bosch, such as Siemens and VDO, have set up units in the UK to sell to the revived car industry there; others are following.

The car makers themselves are also finding it increasingly necessary to move abroad if they are to keep up with market developments. Hence the decision of BMW, a rival to Mercedes in the luxury segment, to invest in a new site in the US.

So while these may be exciting and fast-moving times for components and vehicle makers, they are also some of the most testing the German automotive industry has been through in the post-war period.

More efficient look

French component groups still have a long way to go to catch up, warns William Dawkins

have both moved away from their old strategy of integration, and instead see themselves primarily as designers and assemblers of cars.

The rise in car makers' outsourcing also reflects their increasing demand for high-technology components, such as anti-lock brakes and catalysers, which they have no interest in making themselves. This means they need suppliers that are prepared to design and produce a significant part of a vehicle themselves, in return for a long-term contract. An example is Epeda Bertrand Faure, asked to handle to whole of the seating of the Renault 19.

All this signals a rethink of the traditional adversarial relationships between car makers and suppliers, in which pricing formed the most important part of purchasing decisions. The battleground has now shifted, so that French car makers have instead become more demanding on quality and delivery times, to enable them to practise just-in-time stock control, an essential part of their productivity gains.

Peugeot and Renault have, for example, for the past five years been running joint audits to keep component suppliers' quality up to the mark, grading them according to ability to do their own quality control. They are thinking of extending this system to cover suppliers' productivity, too.

The winners in the shift towards quality and higher technology have been the largest players, while smaller suppliers are increasingly being forced into a secondary position, selling parts to the large component groups instead of directly to the car makers. "Not all of the French suppliers have the R&D resources to meet these requirements. Some... will become second-tier suppliers," says SAC.

Many already have. Renault plans to reduce its number of suppliers from 1,100 last year to around 600 or 700, while Peugeot has already cut back from 1,700 suppliers in 1984 to

740 last year, according to the study. This is still many more suppliers than Japanese producers tolerate - Nissan has 160, for example - which suggests that the shake-out has much further to go.

If the big players are doing well, the middle and lower ranks of the French components industry shows worrying lack of dynamism, says SAC. For one thing, the industry tends to be too centred on the French market, with the obvious exceptions of the top players such as Valeo, Michelin and Saint Gobain. This is a disadvantage when car makers are becoming more global.

At the same time, French car component companies are facing increasing competition in their own market. In recent years, several German companies have set up in Alsace, to take advantage of the relatively cheap labour costs, while ACO Europe, the GM subsidiary, has opened a chassis centre near Paris.

In 1990, NGK, the Japanese spark-plug maker, announced plans to open a plant in the Loire valley, and Koyo Seiko, a Toyota subsidiary, took a stake in Renault's steering systems division. Given France's continuing sensitivities over competition from Japan, observers do not expect a French repeat of the invasion of the US car components industry achieved by Japanese suppliers.

For the moment, the French automotive component industry appears to be holding its own internationally, as is shown by its continuing healthy trade surplus. However, the SAC study argues that the international exposure among medium-sized and small suppliers could be a serious handicap.

Crucially, the French industry is weak on electronic components, which form a growing proportion of the market as cars become more sophisticated. New products here are being increasingly developed outside France - and the growing number of foreign competitors in France could suggest that French suppliers are losing their technological edge, it warns.

* The Outlook for the French Automotive Supplier Industry in the 1990s, price £550, SAC Enterprises, 24 Northfield Avenue, London W15 9RL.

Exciting times

lowed just to keep costs down, however. Big components companies like Robert Bosch, whose products include anti-skid braking (ABS) and fuel injection systems, have found it necessary to build plants outside Germany to be closer to individual markets. Thus Bosch has built a £100m plant for alternators in Wales to raise its share of the developing UK market, where Japanese investment has led to a new lease of life.

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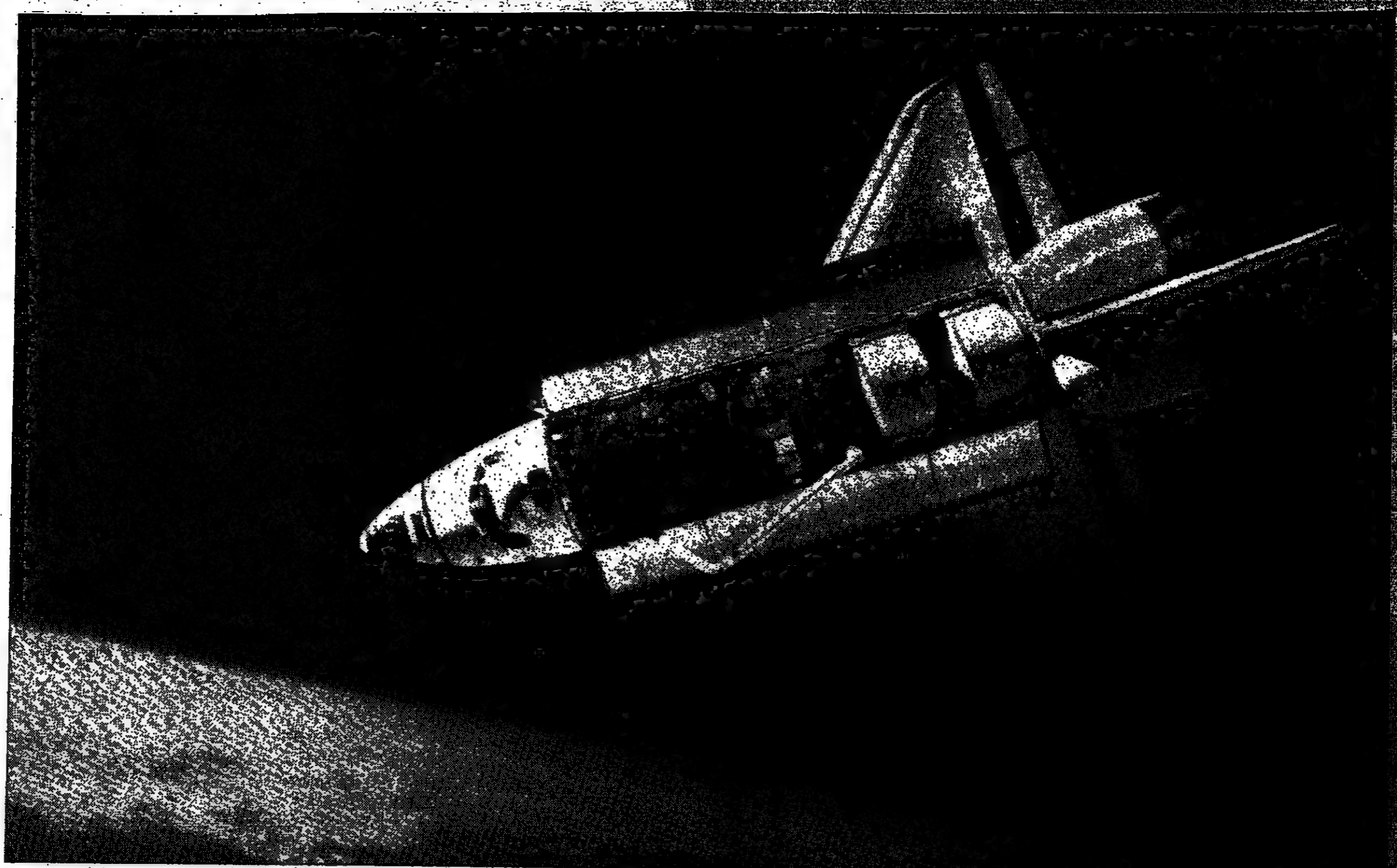
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BAHRAIN

Tuesday July 14 1992

□ The economy: a new, long-term strategy is planned — see page 2

□ Tourism industry: the Gulf's bright lights beckon — see page 4

SECTION IV

Quest for greater economic diversity

Bahrain has only modest oil reserves, but it has become an important financial and trading centre in the Gulf. Now the island-state is seeking an even more diversified economic future, writes Roger Matthews, Middle East Editor

LAST year's great escape by the Arab nations of the Gulf from the predatory grasp of President Saddam Hussein of Iraq is not providing the long-term relief that seemed probable at the time. Official optimism abounds, but there is also a growing appreciation that the American-led military victory has done little to resolve the economic, financial and political tensions of the region. Bahrain has more reason than most to regret the failure.

With a population of 518,000 — 35 per cent of whom are expatriates — and limited natural resources, it relies heavily on international confidence, relative regional stability and a measure of neighbourly co-operation. Bahrain's economy is underpinned by a modest 112,000 barrels of oil a day;

just 42,000 barrels of this produced onshore, the rest coming from an offshore, sharing arrangement with Saudi Arabia.

Since independence in 1971, the most obvious of Bahrain's economic characteristics has been that it will be the first Gulf nation to face a future substantially without oil. At current rates of extraction, its onshore field will cease pumping early in the next century.

That mattered less before the Gulf war. Now that its wealthiest neighbours have used most of their financial reserves to fund the international war effort, Bahrain has less of a safety net and an even greater need to plan a more diversified economic future.

That imperative goes some way to explain the apparent contradiction of Bahrain simultaneously providing base facilities for the US Navy, while urging better relations with Iraq. The paramount need for military security is dealt with by the US, but Iraq and Iran (neither noted in the past for kindly intentions towards Bahrain) are inescapably part of the Gulf's economic future.

Those most involved in planning Bahrain's future talk most about Singapore: "a model for small, island nations," as one senior official put it. Bahrain would like to see itself fulfilling, within the Gulf Co-operation Council (which includes Saudi Arabia, Oman, Kuwait, United Arab Emirates, Qatar and Bahrain), several of the roles which Singapore has developed within the Association of South East Asian Nations (Indonesia, Malaysia, Thailand, Philippines, Brunei and Singapore).

For example, Bahrain wants to expand further as an offshore banking centre offering an increasingly sophisticated range of services. It wants to become the principal tourism destination in the region, serving local markets, especially Saudi Arabia, while forming part of multi-destination international tours.

It also aims to attract more international companies to establish their regional headquarters and supply centres; to dominate the local conference and exhibition market and, by offering 100 per cent foreign ownership, to persuade more private investors to look at opportunities for longer-term industrial development.

THESE aims are not a fanciful strategy, even if, on closer examination, several of its concepts appear difficult to develop. Those difficulties are exacerbated by the unco-operative aspects of the GCC.

Formed in 1981, in direct response to the war between Iraq and Iran, the six GCC members initially denied any military or defensive purpose. It was, they insisted, primarily a trading and economic organisation. In 1990 its military role was forced into the open by Iraq but, to Bahrain's great disappointment, this has still not been matched by greater enthusiasm for regional economic agreements.

The dilemma for Bahrain is acute. It has been running a budget deficit for more than six years, projected last year at 9 per cent of gross domestic product.

On present revenue estimates it will need to borrow or (better) to be given most of the capital for the development projects required both for diversification, and to create new jobs.

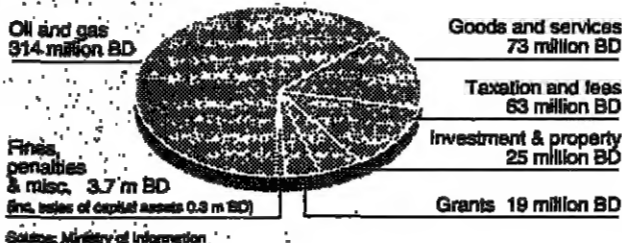
But Bahrain's capacity to borrow is limited, and support from other Gulf countries is running at only a third of promised levels. Of the annual total of \$150m pledged to Bahrain, no payment has been received from Abu Dhabi since 1982, and Kuwait stopped paying in 1990.

"We are grateful to Saudi Arabia for being the one country to meet all its commitments," says Mr Ibrahim Abd al-Karim, the minister of finance and national economy. Sheikh Khalifa bin Sulman al-Khalifa, the prime minister, emphasised in an interview that Bahrain had not sought compensation from its wealthier Gulf partners for the serious losses it had suffered during the crisis; neither had any been offered. What was more important for Bahrain, he

Sheikh Isa bin Sulman al-Khalifa, the Emir of Bahrain, has guided his country with admirable steadiness. The economy is underpinned by an output of around 112,000 barrels of oil a day

State revenue

1992 total: 486 million Bahraini Dinar



Source: Ministry of Information

stressed, was long-term economic regional agreements, especially those which aimed at preventing duplication of effort.

In the absence of such agreements, Bahrain hesitates to embark on projects; their viability could be undermined by its neighbours. The prime minister, choosing his words with care, says that business tends to go where there is most liquidity. (In other words, to countries with more money than Bahrain.) To offset this tendency, Bahrain would like a commitment from its GCC partners not to compete in specific areas.

Its chances do not look good. While international military intervention has blunted the aggression of Saddam Hussein, it has done nothing to defuse other, lesser, regional sensitivities.

In the wake of the Gulf war a rash of border disputes has resurfaced, including Qatar's claim to sovereignty over the Hawar Islands, an area close to one-sixth of Bahrain's total land area.

Bahraini officials were dismayed by Qatar's unilateral approach to the International Court of Justice and by its declaration of territorial waters stretching close to Bahrain's beaches. (Why Qatar chose this path is not understood in Bahrain, but the possible interpretations of Doha's motives make fertile ground for conspiracy theorists.)

The resurgence of Iranian influence in the Gulf, under what is supposed to be an emphatically more pragmatic leadership, has created economic opportunities and political anxieties. Bahrain's bankers travel hopefully to Tehran; in the meantime its internal security forces keep wary eyes on hundreds of Iranians attending the biggest trade fair in Manama since the overthrow of the Shah.

SHAIKH KHALIFA, while stirring up regional sensitivities by discussing relations with Iraq, also includes in his long-term vision the possibility, one day, of Iraq and Iran joining a GCC which has sorted out its present internal difficulties. Bahrain wants a continued American military presence in the Gulf, but it does not want Syrian and Egyptian forces to be deployed in its defence; it protests at what it sees as western attempts to divide Iraq into three.

Having to face in different directions simultaneously may be the fate of small nations in conflict-prone parts of the world. But it also provides a convenient shield for deflecting other unappealing suggestions. One idea taken from Singapore is round-the-clock broadcasting by the British Broadcasting Corporation. The uncensored provision of international news helps to promote Bahrain's image as an information centre, but the official who, memorably, saw "the breath of fresh air blowing through our antenna," did not suggest that

consultative council (its members have still to be named), and said that anything which helped to form opinion was useful.

On the other hand, security was a life and death issue for Bahrain. It was difficult to be a good democrat if that meant sacrificing security, he said. Recent events in Algeria will have reinforced that view.

The absence of greater public accountability, however, does limit the effectiveness of Bahrain's search for a more broadly based economic future. Studies of Singapore will have revealed other, perhaps more pertinent, reasons for that country's economic achievements. Singapore has a functioning if rather regimented parliament. Singapore ministers and senior civil servants

are well paid, but face severe penalties if found guilty of any financial impropriety. Singapore's working population accepts taxation; enforced savings are deducted at source; there is a national acceptance that the state provides nothing for free.

Few of those items are likely to figure on the agenda of either government or governed in Bahrain. On the contrary, the traditional, family-oriented, paternalistic style of national management shows every sign of persisting.

After the successive Gulf wars of the past decade, it can be argued that Sheikh Isa bin Sulman al-Khalifa, the Emir of Bahrain, has guided his country with admirable steadiness and that there is little demand for change. Neither, perhaps,

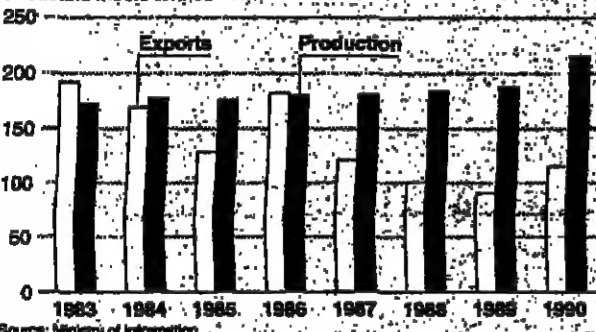
will there be, while the national exchequer is sufficiently well funded to maintain popular expectations.

With over 60 per cent of government revenue coming from oil, limited opportunities for reducing recurrent expenditure and the population increasing at about 3.4 per cent annually, the Bahrain government is aware that something will have to be done.

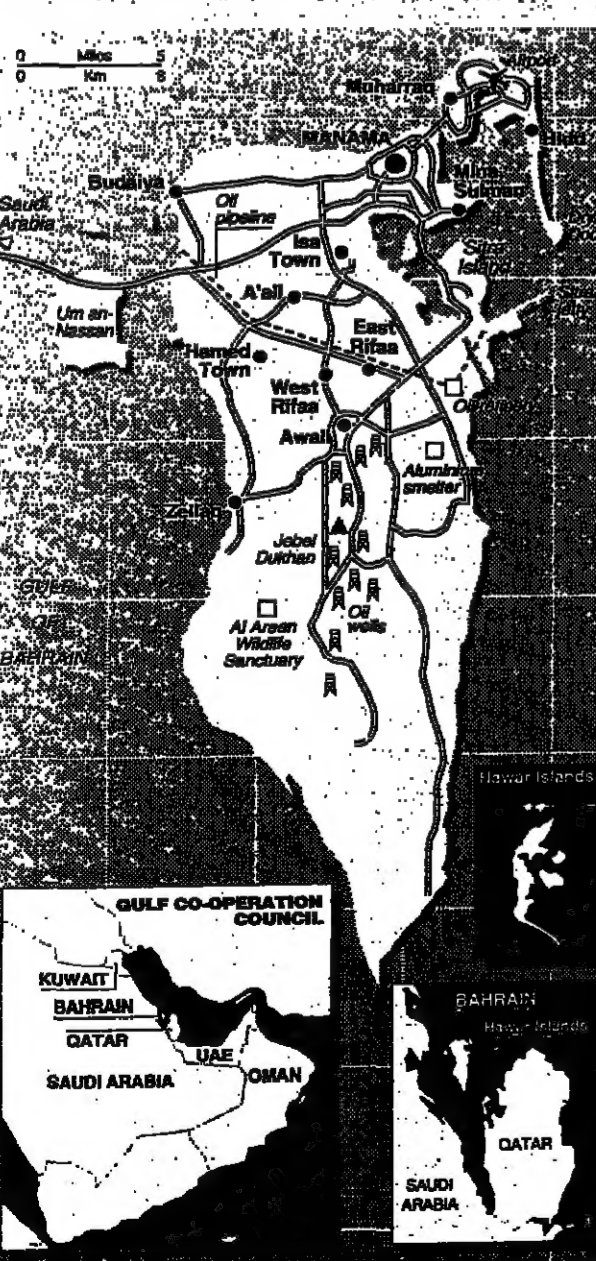
Its strategy for facing a future without oil may not appear entirely convincing, but perhaps it need not be, given the relatively small contributions required to put the national finances on a more even keel. No country in the Gulf sees a greater need for regional stability, prospering local economies and — critically — open-handed friends.

Aluminium

Thousand metric tonnes

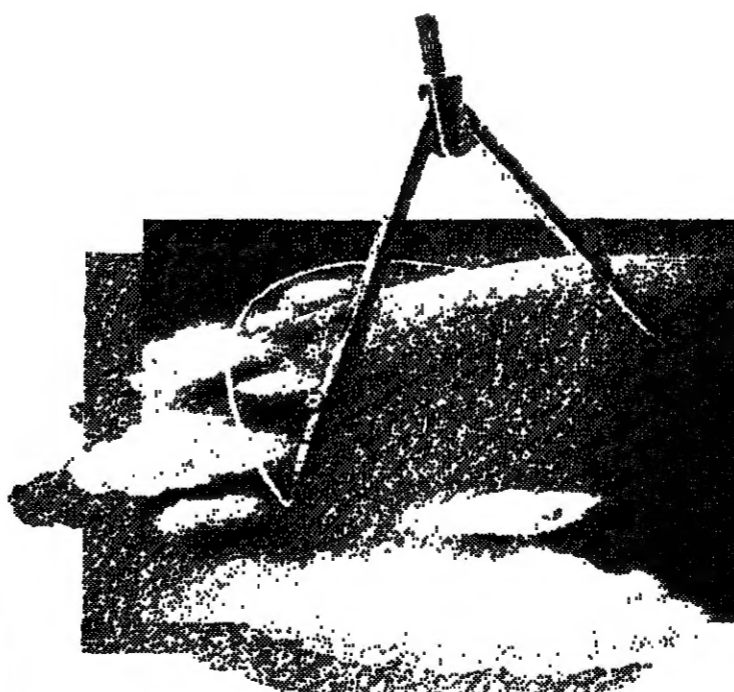


Source: Ministry of Information



- BAHRAIN is an archipelago consisting of 33 islands — the largest is Bahrain Island.
- The country has a stable, progressive, liberal government, supportive of private enterprise.
- Bahrain's currency, the Bahraini dinar (= 1,000 fils), has been pegged to the US dollar for more than a decade.
- Arabic is the official language. English is widely spoken in business.
- Bahrain International Airport is one of the busiest in the Gulf.
- Flight times from Bahrain to leading regional centres: in an hour: Abu Dhabi, Dubai, Kuwait and Riyadh; Doha, 40 minutes; Dhahran, 10 mins; Muscat, 1 hr 30 mins; Jeddah, 2 hrs 10 mins; Tehran, 2 hrs; Karachi, 2 hrs 30 mins; Delhi, 3 hrs.
- The telecommunications system is among the most advanced in the world.
- Bahrain's climate is hot in summer and mild in winter.
- Temperatures are coolest from December to March; the most pleasant period is from November to April.
- Compared with leading European and US cities, the costs of hotel accommodation, labour, office rents, electricity and water are reasonable; and they are competitive.
- Main exports include: mineral fuels, aluminium, refined oils and lubricants.

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BAHRAIN 3

ALUMINIUM INDUSTRY

Cheap power sets the pace

THE aluminium industry in the Gulf is fast coming to rival the trendy status of the cement industry in the region - a development which, apparently, no self-respecting state can be content without.

Bahrain set the pace by establishing its Alba aluminium smelter in the early 1970s. Dubai followed with its own smelter a few years later.

Iran began work on one this year, and the Saudis are still investigating whether they can build an aluminium plant with the help of one of their offset investment programmes. Even Qatar is said to be thinking of joining the fray.

The compelling logic behind these moves is cheap power;

derived particularly from the region's huge supplies of gas. "Our energy costs are not quite as low as those from, say, a Canadian hydroelectric plant - but they are not much more expensive," says Mr Gudvin.

Local downstream industries are seeking to expand - to head off regional rivals

Tofte, chief executive of Alba. Moreover, although Bahrain has only about 10 years' worth of oil reserves left, gas supplies are expected to last another half century.

The rash of Gulf smelters also reflects the fact that environmental opposition to setting up big aluminium plants is far less of an impediment in the industry-hungry Gulf than in Europe or North America.

For such reasons, Mr Tofte sees no reason for Bahrain's smelter to fear its new local competitors - "it won't matter," he says. "Particularly with the shutdown of aluminium capacity in Europe."

Where other regional smelters could pose some threat, though, is to Bahrain's downstream aluminium sector; the government has high hopes that this will suck in foreign investment and offer just the sort of labour-intensive growth

the island needs to hire job-seeking Bahrainis, who now make up about 85 per cent of the up and downstream industry's workforce.

The more Gulf countries which can offer potential investors the advantage of a smelter on their doorstep, the more thinly spread any downstream investment will be in Bahrain.

But the island has had some early post-Gulf war successes. Reynolds, the US metals group, has committed itself to a \$40m (or so) joint venture with local investors to build an aluminium foil plant, and Alcoa, the US aluminium giant, is also planning a smaller aluminium bottle closure plant on the

island, also with local investors.

Local downstream industries are also seeking to expand - to head off regional rivals, and to absorb the new supplies of metal coming from Alba's expansion programme.

"It's a question of survival," says Mr Mahmoud al-Soufi, general manager of the Bahrain Aluminium Extrusion Company, one of the island's four main first-tier downstream operations. "To be competitive we have to expand, be more efficient and start recycling metal."

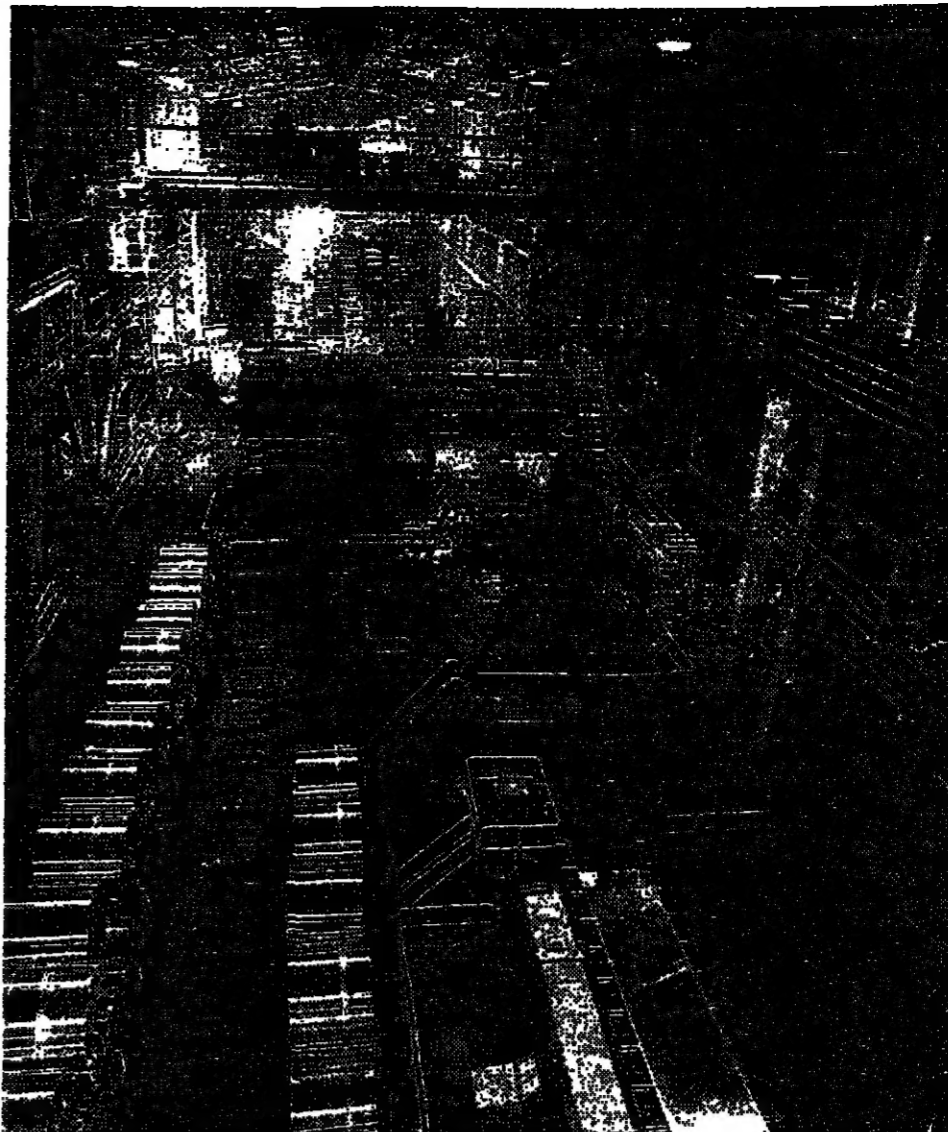
By October, a month ahead of schedule, Alba expects to have completed its \$1.5bn plan to raise production capacity to 460,000 tonnes a year. The smelter, which is 77 per cent owned by the Bahrain government, 20 per cent by Saudi Arabia and 3 per cent by Breton Investments, a German company, will then be considerably the Gulf's largest, and the third biggest single-site smelter in the world.

Dubai, Dubai's smelter, also completing an expansion, now produces 240,000t a year. The Iranian smelter (being designed and built with help from Dubai) is expected to come on stream in 1994 with output of 220,000 tonnes later rising to 350,000 tonnes.

ABOUT half of Alba's present output of 250,000 tonnes a year is absorbed locally; once the expansion is complete industries in the area are expected to purchase about 150,000 tonnes of ingots. The remainder will earn Bahrain in the region of \$600m a year in export sales at present prices.

Most of the domestically-consumed metal will go to Bahrain's four main downstream operations: the 51 per cent government-owned Bahrain Aluminium Atomiser Company; the private Midal Cable company; the state-controlled Balco and the Gulf Aluminium Rolling Company (Garmco), owned jointly by Bahrain and a string of other Gulf governmental shareholders.

Each, now, is either considering or finalising expansion plans. Perhaps the most ambitious of these will be at Balco; late last month it concluded agreement with Finleader, the Italian group, to build a new extrusion and recycling plant in an investment worth about \$35m. The joint venture company, in which Finleader will have a 49



Gulf Aluminium Rolling Mill Company (Garmco): selling into tough US and European markets

per cent interest, will be called Gulf Aluminium Industries Company. It will nearly treble Balco's original design capacity to about 18,000 tonnes a year.

Balco, which was established in the 1970s to provide building materials for the Gulf's then booming construction sector, has seen this market dwindle with the recession of the mid-1980s; it has only begun to recover in the last year or so.

Its Finleader joint venture is designed to enable Balco to start manufacturing large transportation and structural extrusions, using the Italian company's marketing arm to attack the European market.

Balco is also well ahead with plans to join Samsun, the South Korean group, in a joint venture to produce aluminium

wheels, possibly with two local private investors. The wheels would be largely for export to the US and Europe, in a five-year investment plan likely to cost about \$24m. Balco is also going ahead with projects to make small, high added-value aluminium accessories such as door knobs, and to upgrade its 15-year-old original plant. The company turned in a \$2m profit in 1991, on turnover of \$38m.

Down the road from Balco, at Bahrain's Sitra industrial area, Garmco is also looking to raise output from its rolling mill to 110,000 tonnes a year by 1995, from the present 85,000 tonnes, in a \$75m investment provided largely by its main shareholders, the Bahrain, Saudi and Kuwaiti governments. Qatar, Oman, the Gulf Investment Corporation (a

GCC-owned investment vehicle) and Iraq also have holdings in the venture.

Garmco's intention is to shift focus - from selling mainly construction products into the competitive furnace of the US and European markets - into developing higher added value can-stock and lithographic plates to the Middle and Far Eastern markets.

After expansion, Garmco expects to be producing 30,000 tonnes of can-ends and tabs and up to 10,000 tonnes of lithographic plates.

It also hopes to raise profitability, from levels about which - given its private, sovereign shareholders - it is now silent, by boosting output with a minimal increase of 60-70 workers.

Mark Nicholson

Further attractions for investors

Continued from facing page:

registration which could previously have taken a prospective investor around two, three or even four separate ministries.

The BMPO also offers seven-day registration for big-name companies, hand-holding through the early stages of an investment and a collection point for all Bahrain's previously scattered promotional efforts.

Furthermore - and this measure is more softly spoken by officials - the government also appears to be taking a more relaxed approach to Bahrainisation - the desire for companies to hire as high a proportion of Bahrainis as possible.

Although the greatest aim of attracting foreign investors to the island is to assure employment for young Bahrainis, a big percentage of whom (unadmittedly) are presently jobless, the government appears to have decided that it should not allow Bahrainisation to be an obstacle to attracting companies in the first place. "Bahrainisation is not meant to be penal," explains one official.

It is early to assess the success of these new measures; the BMPO, for instance, is only 9 months old, and presently has a staff of just three. Nevertheless, the moves have

already attracted Ericsson, the Swedish multinational, to set up a regional headquarters in Bahrain, while Digital, the US electronics group, has also decided to establish its regional base on the island, complete with a bonded warehouse and distribution centre. Mr Tony O'Jordan, adviser to the BMPO, says a "good dozen other companies" are set to follow.

On a smaller scale, the government has also established the Bahrain Development

Bahrain's best business ideas are frequently copied by other Gulf countries

Bank, with initial capital of \$D10m, to foster small local businesses by offering loans, venture equity stakes and management consultancy. Last month the bank approved its first four loans, worth a total of \$D500,000, and is processing applications from a further 90 businesses and individuals.

The bank is not only Bahrain's first development institution - something all other Gulf states possess. It hopes also to become a semi-independent repository of economic and financial advice on the island. Most other sectors of

the economy have also geared up behind Bahrain's new drive. The airport, for instance, last year added nine new carriers to the 29 previously using the island in what its officials describe as a new "open skies policy with a touch of common sense."

Multinational aluminium companies are being courted, with some success, to develop the island's industry downstream of Alba, its large smelter. Travel writers are being flown in to help crank up Bahrain's embryonic international tourism industry. In fact, the government is candid about being open to almost any offers.

"We are trying to develop any angle of anything that can be developed," says Sheikh Khalifa bin Salman al-Khalifa, the prime minister, straightforwardly.

The trouble is, as Bahraini officials will grudgingly concede, so too is Dubai. Although Bahrain is promoting its location as a hub, its congenial and liberal atmosphere, its good communications systems, so is its rival emirate to the south - with some justice.

Bahrain certainly has some edges over Dubai, particularly in its better developed legal system, more developed financial services industry, and higher standards of financial

regulation. Against that, though, Dubai has more money and more free land.

These latter advantages make it the galling fact that Bahrain's best ideas can be, and often are, snaffled and duplicated by Dubai - or indeed by other Gulf states.

Dubai, for instance, has followed Bahrain in building an aluminium smelter; Iran is now building another, and Qatar and Saudi Arabia are also bearing the idea in mind. "I believe we have good ideas, we have a good basis for development," says Sheikh Khalifa. "But business goes mostly to where there is more liquidity."

The difficult truth for Bahrain (a truth the government well knows) is that the poorest of the Gulf Co-operation Council (GCC) states (the members are Saudi Arabia, Kuwait, United Arab Emirates, Oman, Qatar and Bahrain) is always the one to suffer most from the six countries' predilection for duplicating each other.

"There is simply no recognition here of the division of labour," reflects Mr Hubail.

Until the GCC puts more emphasis on its middle initial, therefore, the success of Bahrain's new marketing drive will depend largely on factors outside its control.

Mark Nicholson



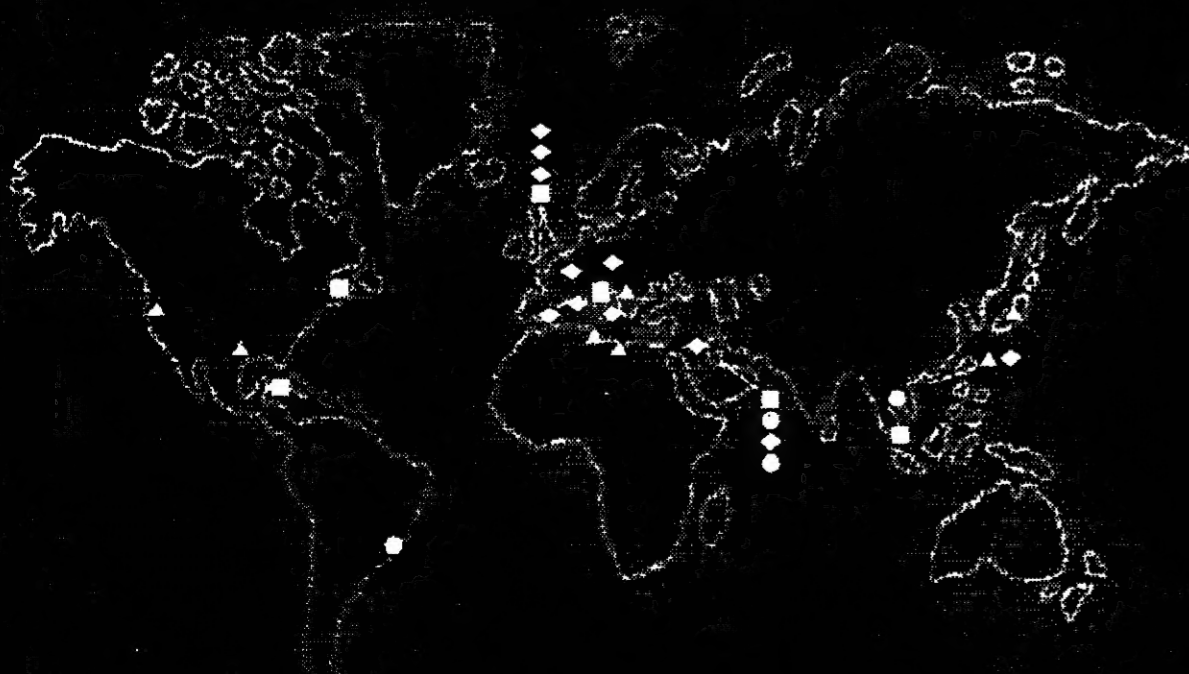
ARAB BANKING CORPORATION (B.S.C.)

FINANCIAL HIGHLIGHTS AS AT 31 DEC. 1991

Financial Highlights-1991

	1991	1990
(in million of US\$)		
Total Assets	20,451	20,549
Total Loans & Advances	11,038	11,028
Marketable Securities	1,459	1,060
Deposits with Banks & other Financial Institutions (Placements)	6,377	6,754
Total Deposits	16,846	16,618
- Deposits from customers	10,525	10,876
- Deposits from Banks & other Financial Institutions	6,321	5,742
Total Capital Resources	2,124	2,099
Shareholders' Funds	1,411	1,386
Pre-tax Profit	90	(47)

Branches Representative Offices Subsidiaries Affiliates



Arab Banking Corporation (B.S.C.)

The bank with performance and potential.

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ALUMINIUM BAHRAIN, B.S.C. (c)

Fourth Potline and New Power Plant Project Financing Facilities

Secured by
1990 Quota Agreement

Commercial Bank Facility	US \$650,000,000
Power Plant Belgian Export Credit Facility	US \$ 35,000,000
Power Plant German Export Credit Facility	US \$290,000,000
Power Plant Italian Export Credit Facility	US \$104,000,000
Smelter Equipment French Export Credit Facility	US \$120,000,000
Smelter Equipment German Export Credit Facility	US \$150,000,000

Financial Advisors:
Chase Investment Bank Limited
Gulf International Bank B.S.C.

1990/1991



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